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Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 SP-02 USIA-15 AID-05 EB-07 NSC-05
CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-03 H-02
PA-02 PRS-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 /110 W
---------- 030032
R 071731Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3930
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
USMISSION OECD PARIS
AMCONSUL FRANKFURT

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DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER 6)

REF.: BONN 20473, BONN 20358 AND BONN 20193

1. MONEY MARKET:
THE GERMAN MONEY MARKET REMAINED VERY TIGHT WITH CALL MONEY AT TIMES EXCEEDING THE LOMBARD RATE BY UP TO 0.8 PERCENT. A FACTOR CONTRIBUTING TO THE TIGHTNESS APPEARS TO BE THE FILLING UP OF THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK IN PREPARATION FOR THE SEASONALLY TIGHT MONTH OF DECEMBER. (MONEY IS USUALLY VERY TIGHT IN DECEMBER DUE TO THE COINCIDENCE OF THE CHRISTMAS SEASON, A MAJOR MID-MONTH TAX DATE AND YEAR-
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END BALANCE SHEET WINDOWDRESSING OPERATIONS OF BANKS AND FIRMS.) ANOTHER FACTOR KEEPING UP MONEY

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RATES WAS FEDERAL GOVERNMENT BORROWING ON THE GERMAN MONEY MARKET INSTEAD OF USING ITS CASH CREDIT FACILITIES AT THE BUNDESBANK. REPORTEDLY THE BORROWINGS WERE MADE AT THE URGING OF THE BUNDESBANK IN ORDER TO PREVENT MONEY CREATION BY FEDERAL BORROWINGS AT THE BUNDESBANK. ACCORDING TO DIE WELT, THE FEDERAL GOVERNMENT BORROWED FUNDS ON THE MONEY MARKET FOR THE PERIOD ENDING DECEMBER 20 WITH THE OPTION OF EARLIER REPAYMENT. DIE WELT REPORTS THAT THE INTEREST RATE PAID BY THE GOVERNMENT IS "SUBSTANTIALLY" BELOW 5 PERCENT, BUT PRESUMABLY NEAR MONEY MARKET RATES INDICATED BELOW. THE INTEREST RATE FOR CASH CREDITS OF THE BUNDESBANK IS TIED TO THE REDISCOUNT RATE, I.E., CURRENTLY 3 1/2 PERCENT. DURING THE REPORTING WEEK FRANKFURT INTERBANK RATES DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
NOV. 29	4.9-5.3	4.40	4.65
30	4.7-5.3	4.50	4.65
DEC. 1	4.5-4.7	4.70	4.63
2	4.5-4.7	4.70	4.70
3	4.6-4.8	4.80	4.70
6	4.8-5.0	4.80	4.70

2. FOREIGN EXCHANGE MARKET:
THE DOLLAR WEAKENED SUBSTANTIALLY AGAINST THE DEUTSCHEMARK. THE FINANCIAL PRESS ATTRIBUTED THIS TO THE VERY TIGHT GERMAN MONEY MARKET CONDITIONS WHICH RESULTED IN A SHIFT OF THE "NORMAL" INTEREST DIFFERENTIAL OF EURODOLLARS OVER EURO-DM INTO A SLIGHT DIFFERENTIAL IN FAVOR OF EURO-DM. DURING THE REPORTING WEEK FRANKFURT SPOT AND FORWARD DOLLAR RATES DEVELOPED AS FOLLOWS:

	SPOT DOLLARS			FORWARD DOLLARS (IN PCT. PER ANNUM)	
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MOS
NOV. 29	2.4029	2.4029	2.4020	-0.4	-0.6

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30	2.4035	2.4048	2.4060	0.3	-0.6
DEC. 1	2.4070	2.4138	2.4160	0.0	-0.5
2	2.4175	2.4142	2.4150	0.0	-0.4
3	2.4120	2.4072	2.4055	0.0	-0.2
6	2.4050	2.3957	2.3937	0.8	0.1
7	2.3920	2.3952	N.A.	N.A.	N.A.

3. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD NOVEMBER 24-30 THE BUNDESBANK'S NET FOREIGN POSITION DECLINED BY DM 0.2 BILLION TO DM 93.7

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BILLION. FOREIGN EXCHANGE HOLDINGS FELL BY DM 222
MILLION WHILE FOREIGN LIABILITIES DECLINED BY ABOUT
DM 20 MILLION.

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PA-02 PRS-01 CIAE-00 COME-00 FRB-01 INR-07 NSAE-00
XMB-04 OPIC-06 LAB-04 SIL-01 /110 W
---------- 030080
R 071731Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3931
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
USMISSION EC BRUSSELS
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4. BANK LIQUIDITY:
DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY
DM 1.4 BILLION. THE ONLY MAJOR FACTOR INCREASING
LIQUIDITY WAS A SUBSTANTIAL DM 6.6 BILLION DECLINE IN
OFFICIAL NET ASSETS HELD AT THE BUNDESBANK. (ASSETS OF
THE FEDERAL GOVERNMENT ALONE DECLINED BY DM 5.O BILLION
TO DM O.7 BILLION AND ASSETS OF THE STATE GOVERNMENTS
BY DM 4.1 BILLION TO DM 3.3 BILLION. FEDERAL POST
OFFICE ASSETS, ON THE OTHER HAND, INCREASED BY DM 2.5
BILLION.) OTHER FACTORS INCLUDING DM O.3 BILLION OF

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RETURNS OF MONEY MARKET PAPER TO THE BUNDESBANK IN-
CREASED LIQUIDITY BY DM 2.4 BILLION. LIQUIDITY WAS
REDUCED BY THE FOLLOWING FACTORS: A) THE USUAL INCREASE
IN CURRENCY IN CIRCULATION AT THE END OF A MONTH (DM 5.9
BILLION, WHICH, HOWEVER, WAS INFLATED BY THE CHRISTMAS
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SEASON); B) A DM 1.4 BILLION INCREASE IN THE BANKS'
HOLDINGS OF RESERVES AT THE BUNDESBANK TO MEET NOVEMBER
RESERVE REQUIREMENTS; C) THE ABOVE-MENTIONED DM O.2
BILLION DECLINE IN THE BUNDESBANK'S FOREIGN POSITION;
AND D) DM O.1 BILLION OF SALES OF PUBLIC BONDS BY THE
BUNDESBANK. THE BANKS USED THE INCREASE IN LIQUIDITY TO
REDUCE LOMBARD BORROWINGS BY DM 1.8 BILLION TO DM 5.2
BILLION AT THE END OF NOVEMBER, A LEVEL WHICH IS STILL
VERY HIGH AS COMPARED WITH PRACTICALLY ZERO AT THE END
OF OCTOBER. AT THE SAME TIME THEY INCREASED REDISCOUNT
BORROWINGS BY DM O.4 BILLION TO DM 13.2 BILLION.

5. DOLLAR 15O MILLION CREDIT FOR HUNGARY:
AN INTERNATIONAL BANKING CONSORTIUM LED BY THE DEUTSCHE
GENOSSENSCHAFTSBANK WILL GRANT A $15O MILLION CREDIT
TO HUNGARY. THE INTEREST RATE WILL BE 1.125 PERCENT
ABOVE LIBOR, THE MATURITY 5 YEARS. THE LEADING BANKS
OF THE CONSORTIUM INCLUDE MAJOR COOPERATIVE BANKS IN
FRANCE, THE NETHERLANDS, AUSTRIA AND SWITZERLAND.

6. BOND MARKET:
THE SLIGHT DECLINES FOR DOMESTIC BONDS PREVAILING DURING
THE PREVIOUS REPORTING WEEK CAME TO A HALT. ON
DECEMBER 9 THE GERMAN DEPARTMENT STORE KAUFHAUS A.G. WILL
OFFER A DM 15O MILLION LOAN (COUPON 7 1/2 PERCENT, ISSUE
PRICE 99 3/4, MATURITV 1O YEARS). THIS LOAN WILL BE
THE FIRST LOAN OF A DOMESTIC COMMERCIAL BORROWER DURING
THE LAST 4 YEARS. (THE LAST COMMERCIAL BONDS WERE
OFFERED IN 1972 AT A COUPON OF 7 PERCENT AND A MATURITY
OF 15 YEARS.). THE KAUFHAUS LOAN WILL ALSO BE THE FIRST
COMMERCIAL BOND ISSUE IN THE POSTWAR PERIOD HAVING A
HIGHER COUPON THAN PUBLIC LOANS OFFERED AT THE SAME
TIME. THE LAST PUBLIC LOAN, A DM 8OO MILLION FEDERAL
LOAN OFFERED ON NOVEMBER 25, CARRIED A COUPON OF 7 1/4
PERCENT, AN ISSUE PRICE OF 99 1/2 AND A MATURITY OF
1O YEARS. ON THE MARKET FOR FOREIGN DM BONDS THE
FINANSIERINGSINSTITUTET FOR INDUSTRI OG
HANDVAERK, COPENHAGEN, PLACED PRIVATELY DM 2O MILLION
OF BONDS (COUPON 7 1/2 PERCENT, ISSUE PRICE 99 1/4,
MATURITY 5 YEARS). THE AUSTRIAN KONTROLLBANK ALSO
PLACED PRIVATELY A DM 5O MILLION OF BONDS (COUPON 7
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PERCENT, MATURITY 7 YEARS, ISSUE PRICE 1OO). CURRENTLY THE FOLLOWING TWO BOND ISSUES OF FOREIGN BORROWERS ARE BEING OFFERED: CITY OF COPENHAGEN (DM 75 MILLION, COUPON 7 1/2 PERCENT, MATURITY 1O YEARS WITH REPAYMENT TO BEGIN AFTER 4 YEARS); EUROPEAN COUNCIL (DM 6O MILLION, COUPON 7 PERCENT, MATURITY 7 YEARS, ISSUE PRICE 99 1/2).

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XMB-04 OPIC-06 LAB-04 SIL-01 /110 W
---------- 030077
R 071731Z DEC 76
FM AMEMBASSY BONN
TO SECSTATE WASHDC 3932
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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THE DM 1OO MILLION BOND ISSUE OF THE INTER-AMERICAN DEVELOPMENT BANK (SEE BONN 2O193) WILL CARRY THE FOLLOWING CONDITIONS: COUPON 7 PERCENT, MATURITY 1O YEARS WITH REPAYMENT TO BEGIN AFTER 5 YEARS, ISSUE PRICE PROBABLY 99 1/2.

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7. ECONOMIC INDICATORS PUBLISHED THIS WEEK:
OCTOBER DATA FOR INDUSTRIAL PRODUCTION AND
INDUSTRIAL ORDERS WERE CONTAINED IN BONN 2O358, AND
NOVEMBER UNEMPLOYMENT DATA IN BONN 2O473. OTHER
ECONOMIC INDICATORS FOLLOW:

	NON-SEASONALLY ADJUSTED		
	JULY	AUGUST	SEPTEMBER
INSOLVENCIES	7O3	791	8O8

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PERCENTAGE CHANGE			
FROM 1975	-19.5	3.8	11.8
	AUGUST	SEPTEMBER	OCTOBER
AUTO REGISTRATIONS			
(THOUSANDS)	121.8	191.6	184.5
PERCENTAGE CHANGE			
FROM 1975	1.9	2.9	-1O.4

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TAGS: EFIN, GE
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